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What You Should Know About

Mutual Funds

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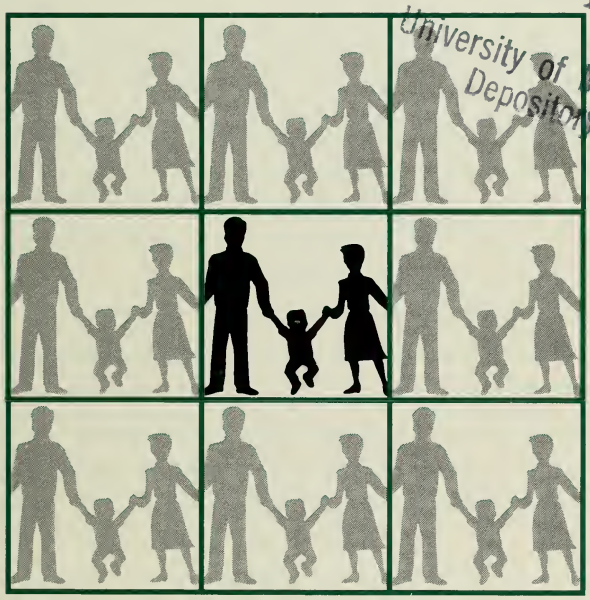

Securities Division
Office of the Massachusetts
Secretary of State
Michael J. Connolly, Secretary
617-727-3548
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A Message from the Secretary

Dear Investor:

There are a number of investment options available to you as a consumer. Many people have chosen mutual funds as their primary means of investing. Mutual funds provide professional management, diversification, convenience and liquidity. As with all investments, mutual funds are not risk free. It is essential that you make an informed investment decision and choose a mutual fund which is right for you depending on your goals, investment time frame and risk tolerance.

Many questions can arise when it comes to mutual fund investing. What is a mutual fund? What are the different types of mutual funds? How do I choose a fund that is right for me? What are the risks? This pamphlet is designed to help answer these basic questions. If you have any questions or need further assistance, please contact my office at 617-727-3548.

Sincerely,

Michael J. Connolly
Secretary of State

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Mutual Fund Tips

- Determine your investment objectives. What is your investment goal: preserving principal; generating income; paying for a child's education; or saving for retirement? Choose a mutual fund whose objective is in line with that goal.
- Thoroughly understand the risks associated with the mutual fund you are considering and be sure that you are comfortable taking on those risks.
- Read and understand all information in the fund's prospectus, Statement of Additional Information, and, if available, its annual report. Call the fund company or the Securities Division if you have questions regarding these materials.
- Take the time to study the fund's fee table. Compare the fees among various fund groups before choosing a fund. These fees are expenses of the fund and will significantly affect your returns.
- Depending on your own investing experience, decide whether you should invest in a fund directly or through a broker-dealer. A broker-dealer can provide investment advice but will charge a sales load. In some funds you can invest directly without the assistance of a broker-dealer. These funds do not charge a sales load but do not give investment advice.
- If you are investing through a broker-dealer or utilizing the services of a financial advisor, contact the Securities Division to see if your broker or financial advisor is registered in Massachusetts or has any past disciplinary matters on file.
- If you are investing in a mutual fund sold at your bank or credit union, make sure you understand that the fund is not an insured deposit and that it is not guaranteed by the financial institution, the FDIC or any other federal agency.

A mutual fund, also called an investment company, is an investment vehicle which pools the money of many investors. The fund's manager uses the money collected to purchase securities such as stocks and bonds. The securities purchased are referred to as the fund's portfolio.

When you give your money to a mutual fund, you receive shares of the fund in return. Each share represents an interest in the fund's portfolio. The value of your mutual fund shares will rise and fall depending upon the performance of the securities in the portfolio. Like a shareholder in a corporation, you will receive a proportional share of income and interest generated by the portfolio. You can receive these distributions either in cash or as additional shares of the fund. As a shareholder, you also have certain shareholder voting rights.

A mutual fund's portfolio is managed by a professional money manager. The manager's business is to choose securities which are best suited for the portfolio. Be aware, however, that even a professional money manager cannot insure against a loss of principal.

The mutual fund manager will invest in many different securities. This diversification of portfolio assets means that you as an investor have not pinned all your hopes on one company's success. Also, because the portfolio holds many securities, the negative impact that any one company may have on the fund is diminished. While diversification is a benefit of mutual fund investing, a mutual fund is still impacted, either favorably or unfavorably, by the ups and downs of the market in general.

Mutual funds provide a relatively easy way to invest. Most funds have a minimum investment of $1000. In addition, a mutual fund stands ready to buy back, or redeem, your shares at any time. This liquidity allows you to get your money when needed. There is no guarantee, however, that your shares at the time of redemption will not have decreased in value.

Types of Mutual Funds

The types of mutual funds vary according to the fund's investment objective. A fund's investment objective will usually seek capital gains (gains from the sale of portfolio securities), income (interest and dividends earned on the portfolio securities) or a combination of both. While not a comprehensive list of all mutual funds, the basic types of funds are described below.

Money Market: A money market fund seeks safety of principal by investing in high quality, short-term securities. This type of fund is designed with the aim that an investor's principal should not decrease in value. There is no guarantee, however, that this will always be the case. A money market fund seeks to provide a regular distribution of income which is determined by short-term interest rates.

Growth: A growth fund invests primarily in the common stock of well established companies. This type of fund may invest for long-term capital gains and is not intended for an investor who seeks income.

Aggressive Growth: Like a growth fund, an aggressive growth fund will invest primarily in common stock for long-term capital gains. An aggressive growth fund may invest in the common stock of small companies, out-of-favor companies or companies in new industries. It, therefore, has a higher degree of risk than a basic growth fund.

Income: An income fund invests in either corporate, government, or municipal debt securities. A debt security is an obligation which pays interest on a regular basis. Hence, this type of fund is designed for investors who desire periodic income payments. There are, however, substantial differences and varying degrees of risk among income funds depending on the credit quality of the debt issuer, the

maturity of the debt instrument, and prevailing interest rates.

High Income: This category of income fund seeks to achieve a high degree of income by investing a material portion of its portfolio in below investment grade debt securities or junk bonds. These funds have a high degree of risk and should be purchased by investors who can incur the risk of loss of principal.

Balanced: A balanced fund, as the name implies, invests for both growth and income. The fund will invest in both equity and debt securities. A balanced fund seeks to provide long-term growth through its equity component as well as income to be generated by the portfolio's debt securities.

Balancing Risk with Investment Goals

Do not let anyone tell you that mutual funds are free from risk. While risks vary depending on the fund, the potential danger is the same - loss of principal and income. You must determine your own risk tolerance level. This determination should be made with your investment goals in mind. Risks that may be acceptable for a long-term investor seeking capital appreciation may not be suitable for an investor seeking income and principal protection. The following chart is intended to provide you with a starting point for matching mutual fund objectives with your risk tolerance. Be aware that not every fund designed to meet one of the stated objectives will have a similar degree of risk. You should refer to the fund's prospectus to determine the risks associated with a fund.

Fund Objective	Degree of Risk
Money Market	Low
Growth	Medium to High
Aggressive Growth	High
Income	Low to Medium
High Income	High
Balanced	Medium

1. The Prospectus

The fund's prospectus is one of the most important documents to read when purchasing a mutual fund. It supplies the material information you will need to make an informed investment decision. Information is also available in the prospectus on certain administrative aspects of the fund, such as buying, redeeming and exchanging shares.

2. The Statement of Additional Information ("SAI")

The SAI includes information which supplements what is disclosed in the prospectus. A fund's audited financial statement and a list of its portfolio holdings are included in the SAI, as well as in the annual report (see below). Because the SAI has been legally incorporated into the prospectus, it will be assumed that you have read it. Hence, you should always ask for a copy and read the SAI before investing in a mutual fund. If you encounter any problems when requesting this document, please contact the Securities Division.

3. The Annual Report

The annual report is forwarded to a fund's shareholders at the end of each fiscal year. It includes the fund's audited financial statements and a list of the fund's portfolio securities. Unless otherwise included in the prospectus, a fund will include in its annual report a line graph comparing its performance to that of an appropriate broad-based securities market index, as well as a discussion of those events, strategies and techniques which affected its performance during the past fiscal year. An annual report includes material information which may not be available in other disclosure documents and, if available, should be read by a potential investor.

Mutual Fund Sales Charges

A mutual fund which sells its shares directly to investors without paying sales commissions to broker-dealers is referred to as a no-load fund. When you invest in a no-load fund your entire investment goes into buying shares of the fund. However, because you are not paying a commission to a broker-dealer, you will not receive financial advice.

When financial advice is needed, some investors choose a load fund. A load fund pays a broker-dealer a sales commission. The amount you invest in the fund is decreased by the payment of the sales commission. Some load funds, rather than charging the sales commission at the time of the sale, charge the fee when money is taken out of the fund. This fee is referred to as a contingent deferred sales charge or a back-end load. The back-end fee will usually decrease to zero the longer an investor remains in the fund.

Another sales-related expense, which is often overlooked by investors, is the 12b-1 fee. This fee, which is disclosed in the fund's fee table, can be used by the fund for marketing, advertising or sales commissions. Because the 12b-1 fee is a charge against the fund on an annual basis, an investor could over the long term pay more in 12b-1 fees than would have been permissible as a maximum front end sales load.

Many load funds offer investors the option of paying the sales load up-front, back-end or a combination of a reduced sales commission and a 12b-1 fee. These sales-related options are called classes of fund shares. You should choose the class that best matches your needs and investment time frame.

If you have a problem understanding any aspect of your mutual fund contact the fund directly. Most funds have a toll-free numb[illegible] the front page of the prospectus for this purpose. There are also a number of private organizations which publish consumer guides which address mutual funds. For more information, you may wish to contact the Investment Company Institute at 202-326-5872. The Division also has a brochure to help clear up any investor misconceptions concerning the sale of mutual funds and other investment products sold on bank premises. You can contact the Office of the Massachusetts Secretary of State, Securities Division for this brochure, as well as for general information concerning your mutual fund, broker-dealer or financial advisor.

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